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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001733

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E.O. 12958: DECL: 07/02/2119  
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SUBJECT: ALCOA INVESTMENT LIFTS SAMARA'S SAGGING ECONOMY

REF: MOSCOW 1646

Classified By: Ambassador John R. Beyrle, Reasons (1.4 b,d)

Summary

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¶1. On June 23-24, the Ambassador visited Samara to officiate at the opening of the latest production line of the USD 750 million Alcoa investment in the Samara Metallurgical Plant, Russia's largest aluminum producing facility. The Ambassador met with Samara Governor Vladimir Vladimirovich Artyakov, who boasted of his oblast's success in attracting FDI and maintaining a relatively low rate of unemployment. Artyakov emphasized his commitment to broadening the already substantial U.S. trade and investment ties in Samara (the U.S. being Samara's leading economic partner). After the Ambassador raised the closure of our American Corner, the Governor said half-heartedly that he would review any future U.S. proposal to reopen. Following the opening of the Alcoa plant, the Ambassador spoke to students and faculty at the Samara State University and hosted a reception for alumni of U.S. exchange programs. End Summary.

Meeting With the Governor

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¶2. (C) The Ambassador met with Samara Governor Vladimir Vladimirovich Artyakov on June 24, with the media in the room for the entire session. Speaking without notes, Artyakov boasted about Samara's success in attracting FDI, eliminating bureaucratic red tape, and lowering taxes for business. He stated that the U.S. was Samara's leading foreign partner, with a total of 18 U.S. companies doing business in the region and accounting for about 900 million of the oblast's USD one billion foreign trade turnover. The leading U.S. investor was Alcoa (with an investment of about 750 million), followed by Pepsi Cola and Coca Cola. Artyakov also mentioned GM's joint venture with Avtovaz to produce the Chevy Niva; the USD 60 million purchase of GE medical equipment; and purchases of agricultural machinery from Casey and other U.S. manufacturers. Artyakov pledged to do all possible to increase business ties with the U.S., promising bountiful rewards for companies taking the initiative to venture into the potentially lucrative Samara market. The Ambassador responded that a strong business relationship with Russia could be a catalyst for improving bilateral ties across the board, and that the opening of the Alcoa plant in Samara on the eve of President Obama's visit to Russia was of great symbolic importance.

¶3. (C) While Samara's heavy industrial base made it vulnerable to the economic crisis, Artyakov claimed that the oblast was faring much better than most other regions of

Russia. Per capita income was higher than the average for Russia, and unemployment was only 2.5 percent of the work force - significantly lower than the Russian average, in Artyakov's estimation. He attributed the relatively low unemployment to the success of federal and regional programs for retraining and relocating dismissed workers. Programs included loans and technical assistance to set up SME's. Four "business incubators" - based on U.S. models - had been established to help prospective small and medium-sized entrepreneurs acquire technology, credits, and licenses.

#### Closing of America Corners

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14. (C) The Ambassador raised the problem of the recent closure of the American Corner in Samara, noting that the importance of cultural, academic, and people-to-people exchanges would be a theme of the upcoming Moscow Summit. Artyakov responded defensively, noting that Samara had many places with internet access to information and that literature about the U.S. was available in most libraries and universities. However, he offered to "study" a U.S. proposal to reopen the American Corner, and agreed with the Ambassador that both countries could gain from exchanges, particularly scientific and academic. He also made a pitch for promoting U.S. tourism in Samara.

#### Corruption and Red Tape

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15. (C) En route to the Alcoa plant opening, the Ambassador

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was able to have a more candid, one-on-one discussion with Artyakov in his Mercedes limo. When the Ambassador mentioned the 47,000 pages of documentation that Alcoa had been forced to present to local authorities in connection with its investment, Artyakov brushed the matter off with a clip "bureaucracies will be bureaucracies". Artyakov did not react when the Ambassador told him the problem had been raised by the Alcoa CEO in his meeting with Medvedev at the Saint Petersburg Economic Forum.

16. (C) The Ambassador also raised IKEA, which earlier that day had issued its statement suspending investments in Russia. (According to local contacts and press accounts, the year-long delay in opening IKEA's store in Samara over alleged "fire and safety violations" was a key factor in IKEA's decision to halt activities in Russia.) Artyakov placed the entire blame on IKEA, claiming they should have "fixed the violations", while refusing to accept that the accusations against IKEA might have been unfounded.

#### Alcoa Plant Opening

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17. (U) The Ambassador, along with Governor Artyakov and Alcoa CEO Helmut Wieser, presided at a ribbon-cutting ceremony in honor of Alcoa's new coating line plant in the outskirts of Samara. (Note: Alcoa has invested approximately USD 750 million in the Samara Metallurgical plant, which employs 4,000 people. It is Russia's largest fabricated aluminum operation. The new production line will allow Alcoa to produce parts for drink cans that are currently imported. Plans are also underway for the Samara plant to supply aluminum to Boeing's investment in Russia. End note.) In his remarks, the Ambassador emphasized that the Alcoa installation was an excellent example of the confidence U.S. investors had in Russia. He noted that business ties between the U.S. and Russia were a cornerstone of the bilateral relationship and would be an important part of President Obama's upcoming visit to Moscow. He also mentioned Alcoa's commitment to corporate governance and investments in the local community, exceeding one million USD. Governor Artyakov seconded the Ambassador's praise for Alcoa's "social

responsibility" and expounded on how the Alcoa investment would benefit Samara through new jobs, higher revenues and technology transfer.

#### Meeting with Students and Exchange Alumni

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18. (U) Concluding his visit to Samara, the Ambassador spoke to students of Samara State University on the future of the bilateral relationship and entertained their questions, ranging from Middle East policy to educational exchanges. Samara State University, with 13,000 students, places large emphasis on international contacts and has academic exchanges with a number of U.S universities. The rector of the university presented the Ambassador with a two-volume compendium on civics education published by the university with a State Department grant in 2003. The Ambassador later hosted a reception for alumni of U.S. exchange programs, a small but motivated group in Samara that strongly support the reopening of an American Corner there.

#### Comment

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19. (C) There is little doubt that the Alcoa investment will contribute to the economic recovery of the Samara region and will profit from a near monopoly of the Russian market with the possibility of exporting to China and Europe. Artyakov is clearly not going to be leading the anti-corruption fight in Samara any time soon, to judge from his dismissive response to suggestions that the oblast investment climate could use some attention. He struck us as a real "comer" politically, though - self-confident, exceedingly well-spoken, and definitely in control of the local political scene as described in reftel. End Comment.

BEYRLE